

# HOUSE BILL REPORT

## HB 1096

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### As Passed House:

February 17, 1995

**Title:** An act relating to clarifying the Washington limited liability company act.

**Brief Description:** Modifying the limited liability company act.

**Sponsors:** Representatives Padden, Appelwick and Hickel.

### Brief History:

#### Committee Activity:

Law & Justice: 1/25/95, 1/31/95 [DP].

#### Floor Activity:

Passed House: 2/17/95, 93-0.

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### HOUSE COMMITTEE ON LAW & JUSTICE

**Majority Report:** Do pass. Signed by 15 members: Representatives Padden, Chair; Delvin, Vice Chair; Hickel, Vice Chair; Appelwick, Ranking Minority Member; Costa, Assistant Ranking Minority Member; Carrell; Chappell; Cody; Lambert; McMahan; Morris; Robertson; Sheahan; Smith and Veloria.

**Staff:** Edie Adams (786-7180).

**Background:** The 1993-94 Legislature enacted the Limited Liability Company Act. This act provides a new form of business organization that combines the tax advantages of a partnership with the limited liability advantages of a corporation. Limited liability companies are noncorporate entities with flexible management structures, allowing members to actively participate in management of the company. Limited liability companies are not taxed at the entity level because of limitations on transferability of interests, limited existence, and the possibility of owner management.

The Washington Bar Association reviewed the Limited Liability Company Act and determined that several technical changes and clarifications are needed.

**Summary of Bill:** Clarifications are made to the definitions of "foreign limited liability company" and "professional service."

The licensing requirements of members and managers of professional limited liability companies are clarified by providing that a professional limited liability company may operate in this state if: 1) each member personally practicing in Washington is licensed to practice in this state; and 2) at least one manager is licensed to practice in this state, or each member in charge of an office in this state is licensed to practice in this state.

Failure to hold meetings of members or managers and failure to observe formalities pertaining to the calling or conduct of meetings shall not be considered a factor in piercing the veil of the limited liability company when the certificate of formation and the limited liability company agreement do not expressly require the holding of meetings.

A person may sign any limited liability company document through a valid personal representative.

Provisions relating to events of dissociation and assignment of company interests are amended to provide that a person ceases to be a member of the company when the member dies and upon the entry of a court order adjudicating the member incapacitated, as defined under Chapter 11.88 RCW, as to his or her estate.

Conditions for withdrawal of a member are changed, providing that a member may not withdraw from a limited liability company prior to the time for dissolution of the company without the written consent of all other members, unless otherwise specified in the company agreement.

The distribution that a dissociating member or the member's assignee is entitled to receive is amended to be any distribution to which an assignee would be entitled.

Two additional criteria are added to the reasons for which a limited liability company may be administratively dissolved by the secretary of state: 1) if the limited liability company does not pay license fees or penalties when due; and 2) if the limited liability company does not deliver the initial or annual reports when due.

A clarification is made that a foreign limited liability company rendering professional services in the State of Washington is subject to RCW 25.15.045(2), requiring professional limited liability companies to maintain mandatory liability insurance.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** The Limited Liability Company Act has been in effect for three months, and a few confusing provisions have been discovered. This bill clarifies some confusing language and makes other technical corrections.

**Testimony Against:** None.

**Testified:** Don Percival, Washington State Bar Association (pro).